

GAO

United States General Accounting Office

Testimony

Before the Subcommittee on Foreign Operations, Export
Financing, and Related Programs, Committee on
Appropriations, House of Representatives

**For Release on Delivery
Expected at 10:00 a.m.
Wednesday,
March 21, 2001**

FOREIGN ASSISTANCE

Implementing Disaster Recovery Assistance in Latin America

Statement of Jess T. Ford, Director,
International Affairs and Trade



Form SF298 Citation Data

Report Date ("DD MON YYYY") 21MAR2001	Report Type N/A	Dates Covered (from... to) ("DD MON YYYY")
Title and Subtitle FOREIGN ASSISTANCE Implementing Disaster Recovery Assistance in Latin America		Contract or Grant Number
		Program Element Number
Authors		Project Number
		Task Number
		Work Unit Number
Performing Organization Name(s) and Address(es) General Accounting Office, PO Box 37050, Washington, DC 20013		Performing Organization Number(s) GAO-01-541t
Sponsoring/Monitoring Agency Name(s) and Address(es)		Monitoring Agency Acronym
		Monitoring Agency Report Number(s)
Distribution/Availability Statement Approved for public release, distribution unlimited		
Supplementary Notes		
Abstract I am pleased to be here today to discuss our work on the U.S. governments disaster recovery and reconstruction program for hurricane-affected countries. In the fall of 1998, Hurricanes Mitch and Georges struck Central America and the Caribbean. The storms left thousands dead and many more homeless; damages were estimated at more than \$10 billion. The international donor community pledged \$9 billion to assist in the recovery and reconstruction of Mitch-affected countries in Central America. In May 1999, the Congress passed emergency supplemental legislation that, among other things, provided \$621 million for a disaster recovery and reconstruction fund for the affected countries as well as reimbursement funds to U.S. agencies for costs incurred during the immediate relief phase. 1 The U.S. Agency for International Development (USAID) and numerous other U.S. departments and agencies are using this funding to implement recovery and reconstruction activities.		
Subject Terms		
Document Classification unclassified	Classification of SF298 unclassified	

Classification of Abstract unclassified	Limitation of Abstract unlimited
Number of Pages 20	

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss our work on the U.S. government's disaster recovery and reconstruction program for hurricane-affected countries. In the fall of 1998, Hurricanes Mitch and Georges struck Central America and the Caribbean. The storms left thousands dead and many more homeless; damages were estimated at more than \$10 billion. The international donor community pledged \$9 billion to assist in the recovery and reconstruction of Mitch-affected countries in Central America. In May 1999, the Congress passed emergency supplemental legislation that, among other things, provided \$621 million for a disaster recovery and reconstruction fund for the affected countries as well as reimbursement funds to U.S. agencies for costs incurred during the immediate relief phase.¹ The U.S. Agency for International Development (USAID) and numerous other U.S. departments and agencies are using this funding to implement recovery and reconstruction activities.

The emergency supplemental legislation required GAO to monitor the assistance provided. To date, we have focused most of our effort on determining what programs and projects are being funded by USAID and the other U.S. departments and agencies, the objectives and purposes of these activities, and how USAID is ensuring that the disaster recovery funds are spent for intended purposes. We also examined how USAID has coordinated with other international donors and the other U.S. agencies; what USAID has done, as directed by the legislation, to help the affected countries develop an institutional capability to resist corruption; and what USAID has done to mitigate the effects of future disasters.

I should also note that the USAID Inspector General is conducting audits of USAID's disaster recovery programs. We have coordinated closely with the Inspector General's office, in particular, its Regional Inspector General's Office in El Salvador. In general, the USAID Inspector General has focused its oversight efforts on the accounting and financial records, while we have emphasized whether the disaster recovery assistance funds are achieving their intended purposes.

My statement today will cover three main points related to these issues:

- progress to date as a result of the disaster recovery program,
- oversight measures put in place to ensure that funds are spent for their intended purposes, and
- our observations on some of the challenges faced by USAID in implementing large-scale disaster recovery and reconstruction assistance programs such as this.

To address these matters, we have made more than 20 field trips to some of the most remote parts of the affected countries but focused on the two receiving the most assistance—Honduras (\$293.1 million) and Nicaragua (\$94.1 million). On our trips, we

¹ Public Law 106-31, May 21, 1999.

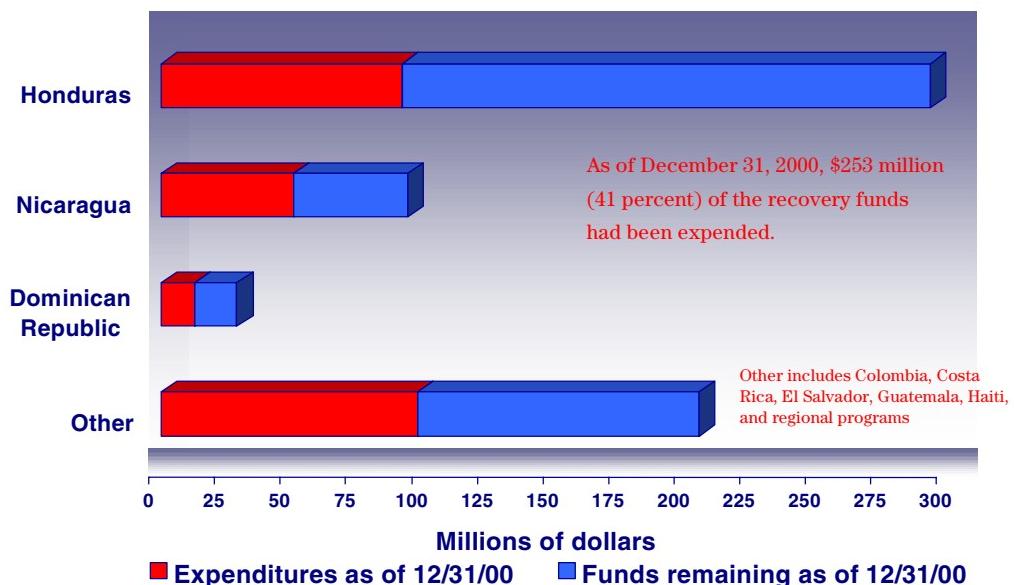
met and talked with many of the people most affected by the hurricane and monitored the progress of numerous USAID projects. We plan to issue a final report to the Congress in July 2002 after USAID has expended all or most of its disaster recovery and reconstruction funds.

SUMMARY

The disaster recovery assistance program has made progress. With some variance by country, USAID and the other U.S. departments and agencies are using the disaster recovery assistance to bring about economic recovery, improve public health and access to education, provide permanent housing for displaced families, and improve disaster mitigation and preparedness. To achieve these broad objectives, USAID is funding infrastructure construction and repair, technical assistance and training, loans for farmers and small businesses, and some commodities. Other U.S. departments and agencies are addressing these objectives through a variety of programs and activities. For example, the U.S. Geological Survey is providing assistance in mapping and hydrology and the U.S. Department of Agriculture is providing assistance in watershed management and food safety.

After initial start-up problems, the U.S. disaster recovery and reconstruction program is proceeding, and most activities are scheduled for completion on or before December 31, 2001, as USAID and congressional staff had informally agreed. In its most recent quarterly report for the period ending December 31, 2000, USAID reported that it and the other U.S. agencies had spent about \$253 million, or 41 percent of the disaster recovery funding. (See figure 1.)

Figure 1: USAID's Expenditures for Three Largest Recipient Countries and Other Affected Countries



Source: USAID

At the present time, it appears that USAID will complete most of its program by the end of the year with the likely exception of a municipal water and sanitation program in Honduras. This program started later than most of the rest in Honduras because (1) some of the initial designs were found to be flawed following a review by the U.S. Army Corps of Engineers and (2) numerous small projects were combined to attract U.S. companies. Some of these projects are considered critical components of larger ongoing or planned water and sanitation projects, and their delay would affect the outcome of the overall program.

To help ensure that funds are spent for intended purposes, USAID has channeled much of the disaster recovery assistance funding through cooperating partners with proven track records, contracted with management and financial services firms to handle disbursements to vulnerable partners (including host governments), and hired contractors to monitor project quality. In addition, the USAID Inspector General is conducting concurrent and regular audits and provided fraud awareness training for cooperating partners. Although some activities have not gone as smoothly as planned, the missions have responded to concerns as they arose. For example,

- While visiting northern Honduras in October 2000, we traveled on a road being repaired with USAID funds that had not been compacted properly and was extremely difficult to navigate. The U.S. engineer overseeing the road repairs took action to ensure its proper construction by our next trip in February 2001. Also, responding to concerns raised in an independent evaluation and by GAO and the USAID Inspector General, USAID suspended \$500,000 in agricultural loans pending a firm commitment by the implementing organization to improve its management practices. In January 2001, the Honduran Ministry of Finance signed a memorandum of understanding with the organization outlining these reforms and USAID expects to release the funds this month.
- In Nicaragua, some organizations USAID used for infrastructure projects did not have the required technical expertise. For example, a private voluntary organization responsible for repairing certain dirt and gravel roads hired engineers, at USAID's urging, after the USAID reconstruction coordinator, GAO staff, and others determined that some of the repairs were inadequate. We also observed that a rehabilitated health post and doctor's residence had been vacant for several months. Following our visit, the Ministry of Health assigned a doctor and we found the clinic operating during a subsequent field trip.

This brings me to the final topic I would like to discuss today—some observations about the challenges USAID faced as it planned and implemented this large-scale program. The bottom line is that USAID did not have the mechanisms to quickly design and implement a large-scale infrastructure program with relatively short-range deadlines. The disaster recovery and reconstruction projects we examined are neither short-term emergency relief nor long-term development assistance—more typical USAID programs. As a result, USAID staff faced numerous challenges in getting the program off the ground. For example, before Hurricane Mitch, the Honduras mission was managing an annual development program of about \$23 million. In addition to managing the immediate relief

effort and implementing an initial reconstruction program with reprogrammed funds, the mission found itself with the task of planning and implementing a program more than ten times its previous year's program. Inadequate levels of staff and contractor support, efforts to help ensure that financial controls and oversight measures were in place, the involvement of numerous other U.S. government agencies, and attempts to ensure competition among contractors and grantees affected the pace of implementation.

These factors should be considered in future disaster recovery and reconstruction efforts. However, USAID has initiated an agency-wide review of its disaster recovery efforts with emphasis on improving its planning for and delivery of disaster recovery assistance. Therefore, we are not making any recommendations at this time.

BACKGROUND

In late October and early November 1998, Hurricane Mitch struck Central America, dumping more than six feet of rain in less than a week, mostly over Honduras. The heavy rainfall produced flooding and landslides that killed thousands of people; left tens of thousands homeless; and devastated infrastructure, agriculture, and local economies. In addition, in September 1998, Hurricane Georges hit several eastern Caribbean islands and the island of Hispaniola, which comprises the Dominican Republic and Haiti. Hurricane Georges also caused the deaths of hundreds of people and severely damaged infrastructure, crops, and businesses.

U.S. relief efforts began immediately; the Congress and the administration recognized the need for longer-term assistance for recovery and reconstruction. In March 1999, President Clinton visited Central America and promised to help these countries rebuild their economies and social sectors. At the same time, USAID began developing a recovery plan for each hurricane-affected country, which outlined USAID's funding estimates and proposed programs. In May 1999, the Congress passed and the President signed an emergency supplemental appropriation that provided, among other things, \$621 million for the countries affected by Hurricanes Mitch and Georges. Prior to obligating the funds, USAID was required to provide formal notifications to the Congress. USAID began submitting its notifications in late May, and most funds were available in July 1999.

USAID is the primary agency responsible for carrying out the U.S. disaster recovery program. Of the \$621 million authorized, USAID is directly responsible for about \$587 million, including about \$62 million in agreements with other U.S. departments and agencies, such as the U.S. Department of Agriculture and U.S. Geological Survey. The remaining \$34 million represents direct transfers from USAID to other U.S. agencies, such as the Departments of Housing and Urban Development and State. Honduras, which received the brunt of Hurricane Mitch, was allocated \$293.1 million and Nicaragua was allocated \$94.1 million.

USAID's overall objectives are to help bring about economic recovery, restore and improve basic services, and mitigate the effects of future natural disasters. Each

country's program varies based on country conditions and the USAID mission's approach. However, the funds are generally allocated for

- repairing or rebuilding (1) the infrastructure needed for reactivating economies (for example, roads and bridges), (2) public health infrastructure (for example, potable water systems, sewage and drainage systems, and health clinics), (3) housing, and (4) schools;
- providing loans, credits, and technical assistance for small and medium-sized farms and businesses;
- strengthening civil defense and early warning/prevention efforts;
- assisting disaster mitigation efforts such as watershed management; and
- strengthening accountability.

DISASTER RECOVERY PROGRAM ADDRESSES INTENDED PURPOSES

USAID experienced considerable challenges in initiating this large-scale disaster recovery program—I will discuss these in more detail in a later section of my testimony. USAID essentially had to reconcile the competing interests of quick implementation with ensuring that appropriate oversight and financial controls were in place and procurement actions were open and transparent.

Despite these initial concerns, USAID and other U.S. departments and agencies are implementing programs and serving the intended beneficiaries, as we have observed from our numerous visits to the field. We have seen signs of progress in all sectors, including repairs and construction of roads and bridges, water and sewer systems, housing, schools, and health clinics; loans for farms and businesses; and technical assistance, training, and equipment for agricultural and disaster mitigation programs. For example, in Honduras, as of the end of February 2001, 625 kilometers (390 miles) of roads and 1,231 linear feet of bridges had been rehabilitated. Also in Honduras, USAID reports that its cooperating partners completed 2,072 new homes for hurricane victims and another 2,825 homes are under construction. The USAID mission in Nicaragua reported that, as of the end of 2000, more than 26,000 Nicaraguans participated in cash and food-for-work programs to repair about 340 kilometers (210 miles) of roads and improve another 839 kilometers (520 miles). USAID's cooperating partners in Nicaragua also built or repaired about 1,034 wells and 3,800 latrines.

Now I would like to discuss some examples of progress being made in Honduras and Nicaragua.

Honduras

In Honduras, USAID had spent about \$92 million or 31 percent of its allocated amount as of December 31, 2000. We have made seven trips to Honduras and noted the following examples of progress based on our field work:

- USAID financed the repair of 625 kilometers (390 miles) of secondary roads and 1,231 meters of bridges as of February 28, 2001. USAID is also financing 15 kilometers (9 miles) of cobblestone roads. We have traveled a good portion of these roads both before and after the repairs and observed the improvements. USAID plans to repair 1,250 kilometers (775 miles) of roads and 5,220 meters of bridges. The total bridge repair program consists of 106 bridges and 145 low-level crossings. USAID had originally targeted 2,000 kilometers of road repairs but revised it due to higher than estimated unit costs and the increase in bridge work, which was increased from 2,000 meters. When completed, this program is expected to connect two million people in 375 communities in six departments with secondary cities and commercial centers. (See figure 2.)

Figure 2: Cobblestone Road Project in Pespire, Honduras



Source: GAO

- USAID's municipal water and sanitation program managed by the Honduran Social Investment Fund is behind schedule but some progress is evident. As of December 31, 2000, 36 of 80 planned projects were underway, and a total of \$41 million in host country contracts had been signed, representing 53 percent of the planned program. We recently observed projects where water tanks and connections are being built and sewage lines and treatment lagoons are being constructed. In addition, USAID, through the Honduran national water authority, reconstructed 587 rural water systems (of 1,469 targeted) and 9,241 latrines (20,000 are planned). We observed several of the rural water supply systems being repaired and talked with beneficiaries about their plans for operations and maintenance. (See figure 3.)

Figure 3: Water and Sanitation Projects Near Choluteca, Honduras



Source: GAO

- As of March 15, 2001, according to mission estimates, USAID's cooperating partners completed 2,072 houses, and another 2,825 were under construction. USAID had originally planned to complete about 5,000 houses, but now estimates that it may complete 5,100 or more. Most temporary shelters have been dismantled as families have moved into permanent housing. (See figure 4.) We observed many of these houses in different areas of the country and talked with the residents of completed units. In many cases, the houses are better than the ones they lost to the hurricane.

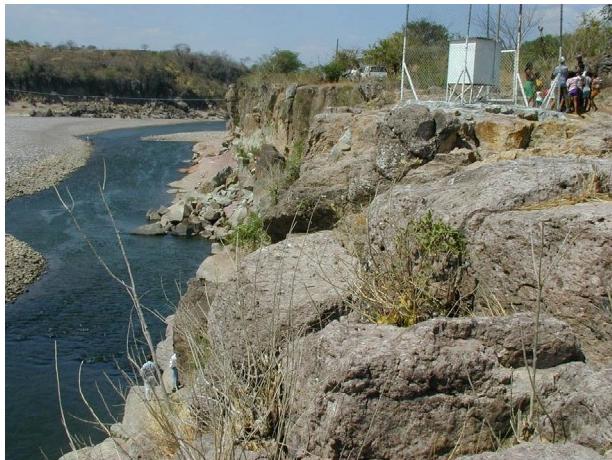
Figure 4: Temporary Shelters in El Progresso Compared to Housing Completed With Disaster Recovery Funds in El Pataste, Honduras



Source: GAO

- As of December 31, 2000, USAID had financed more than \$5 million in 781 agricultural loans for small and medium-sized farms, and its microenterprise program issued 57,637 loans. We met with some of the beneficiaries—from a shrimp farmer in Choluteca to micro-entrepreneurs selling juice and snacks in northern Honduras—to discuss the impact of the hurricane on their livelihood, how the USAID-financed loans have helped them, and how they plan to repay the loans. The recipients seem to understand the payment terms, and many with whom we spoke hope to borrow more as they expand their businesses.
- The U.S. Geological Survey has installed gauges at key points in rivers to collect and record information on water depths over time. (See figure 5.) This information is linked by satellite to the Internet and has already come into use—the mayor of Choluteca used it to evacuate parts of the city during heavy rains in 1999.

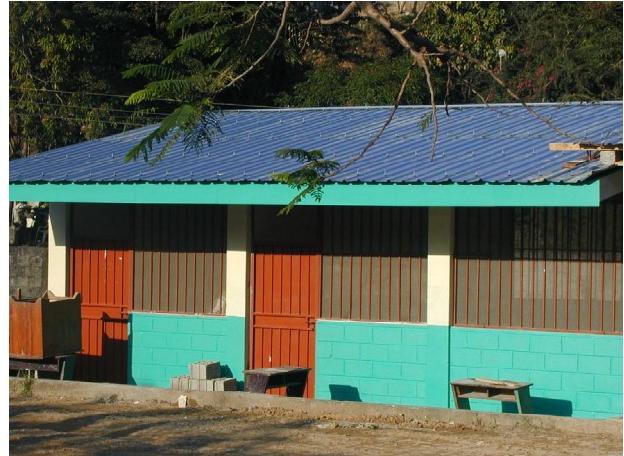
Figure 5: River Gauge Near Choluteca, Honduras



Source: GAO

- We observed additional ongoing and completed projects, including agricultural technical assistance programs, assistance for milk collection centers, construction of primary school classrooms (see figure 6) and vocational centers, distance learning pilots for junior-high school students, and community disaster preparedness programs.

Figure 6: School Under Repair Near La Ceiba, Honduras



Source: GAO

Nicaragua

We have made seven trips to Nicaragua, where the program has less emphasis on heavy infrastructure than in Honduras but similarly targets the economic and social needs of hurricane-affected populations, mostly in the northern part of the country. As of December 31, 2000, USAID had spent almost \$51 million in Nicaragua—54 percent its planned amount. We noted the following examples of progress based on our fieldwork:

- USAID, through its cooperating partners, plans to rehabilitate or improve 1,375 kilometers (850 miles) of farm-to-market roads using local labor through cash-for-work and food-for-work programs. As of December 31, 2000, 340 kilometers (210 miles) were rehabilitated and another 839 kilometers (520 miles) had been improved. USAID estimates that 31,000 families in 700 communities have benefited from the increased access to markets. As in Honduras, we traveled extensively over many of these roads and observed the improvements made. More than 26,000 Nicaraguans have participated in the cash and food-for-work programs. These programs primarily rehabilitate roads but also build or repair retaining walls, dikes, culverts, and irrigation diversion dams. (See figure 7.) Although some of these road activities encountered problems in the beginning, as I will discuss in the next section, these programs are making progress, and the quality of repairs has improved.

Figure 7: Construction of Retaining Walls and Culverts Near Jinotega, Nicaragua



Source: GAO

- In the public health sector, USAID plans to build or repair 2,550 water wells, 5,640 latrines, 28 health centers, and 32 rural health posts as well as provide job training and health education to families in remote areas affected by Hurricane Mitch. As of December 31, 2000, USAID, through its partners, had built or repaired 1,034 wells and 3,800 latrines. USAID-funded drilling rigs had also drilled 87 deep wells. USAID expects to exceed its original target of 160 drilled wells by as many as 100. Also, three health centers were nearly complete and land for three more has been secured, seven rural health posts had been built, and the Matagalpa hospital was rehabilitated. We observed numerous repaired wells, latrines, and health centers and posts. (See figure 8.)

Figure 8: Well Sites in Rural Nicaragua



Source: GAO

- USAID is also providing agricultural assistance. For example, two private voluntary organizations sponsored programs that provided 590 rural residents, mostly women, with farm animals and training. Another organization is helping to improve crop production by providing assistance in using organic fertilizers and pesticides, thereby reducing the inputs needed to produce a crop.
- We also observed many USAID efforts to repair and equip primary school classrooms and to improve disaster mitigation, such as stabilizing stream channels and formulating community disaster preparedness plans.

USAID Encounters Problems With Some Projects

In this large and complex program, with its heavy emphasis on infrastructure repair, not all activities have gone as smoothly as planned. For example,

- In Honduras, the municipal water and sanitation program managed by the Social Investment Fund and implemented by U.S. contractors is behind schedule. The program did not get started until July 2000 because (1) some of the designs submitted by the municipalities had to be revised after the U.S. Army Corps of Engineers reviewed them and (2) USAID decided to combine numerous small projects into packages large enough to attract U.S. companies. Although some of these projects are considered “stand-alone” and not essential components of other projects, some are critical components of larger projects. If the projects that are considered critical to other components are delayed, this will have significant impacts on the program and could result in wasted efforts. For example, we observed the construction of treatment lagoons in Choluteca that can only be used after a pumping station is constructed. (See figure 9.)

Figure 9: Construction of Sewage Treatment Lagoons Near Choluteca, Honduras



Source: GAO

- Also in Honduras, some concerns remain about an ambitious resettlement project near Choluteca—Limon de la Cerca—a housing subdivision designed for 2,300 lots.

Twelve nongovernmental organizations representing a variety of international donors built 1,126 houses for families who lost their homes in Mitch floods. USAID funded a temporary health clinic and a vocational training center. USAID is also funding a potable water and sewer system for the planned community; the residents have a temporary water supply and latrines in the meantime. However, because such services are not complete or are inadequate to support the community, many houses remain unoccupied and some families have moved elsewhere. Crime is increasing and some residents are stealing materials from unoccupied houses. According to USAID officials, these problems stem partly from the rush of donors to finish houses and the fact that community leadership has been divided among the different areas developed by nongovernmental organizations, with the unintended result of setting up separate communities. (See figure 10.) USAID is optimistic that the community will become more viable as more families move in following completion of the water system and the rest of the houses. However, USAID officials also noted that experienced developers are needed for these large sites to help ensure that attention is paid to overall infrastructure and services.

Figure 10: Houses in Limon de la Cerca, Honduras



Source: GAO

- In Nicaragua, USAID hired a U.S. firm to oversee 23 municipal infrastructure projects totaling \$3.6 million that were to be implemented by the government's Emergency Social Investment Fund. However, only 3 projects have been completed, and USAID has cancelled 12 of the remaining projects due to design problems and the need to finish the program by December 2001. USAID will reprogram the funds, totaling about \$1.5 million, for other projects. In one of the initial projects—a road paving activity in Tipitapa—the local contractor notified USAID that the road design had been changed to extend the paving to more sections of the city, resulting in a thinner layer of asphalt than called for by the project's specifications. USAID immediately suspended the contract. The project was subsequently redesigned using different

paving materials and USAID is monitoring it to ensure that the project will be completed according to the new specifications.

OVERSIGHT IDENTIFIES PROBLEMS AND USAID RESPONDS

Since the disaster recovery assistance program began, USAID has undertaken a number of measures to guard against potential misuse of assistance and address problems as projects are underway. In addition, oversight and monitoring of the assistance by us and the USAID Inspector General has resulted in instances of problems being identified and addressed by USAID.

USAID Establishes Additional Oversight Measures

Due to widespread concerns that such a large program with a 30-month timeframe could be susceptible to misuse or corruption, USAID missions were cautious at the outset of the program. In addition to its regular program and financial controls, USAID took some extra oversight measures.

- In Honduras, the major infrastructure construction programs—totaling about \$135 million—are implemented primarily by the Honduran Social Investment Fund, a government agency established to ease the impact of structural adjustment policies through employment generation and social programs. To protect the U.S. investment from potential misuse, the mission established within the Fund a separate oversight unit for a \$50 million road and bridge program in Honduras. The unit is headed by a U.S. project manager with a U.S. engineer and local support staff. For both the road and water and sanitation programs, the mission contracted with financial services firms to handle disbursements to the Fund following approvals by USAID and the oversight unit. USAID also relies on the U.S. Army Corps of Engineers to provide technical oversight of the water and sanitation program. For the school program in Honduras, USAID only reimburses the Fund after units are completed and have been inspected by USAID and its oversight contractors. Finally, in many instances the mission hired U.S. management services firms and private voluntary organizations to oversee other activities implemented by local entities.
- USAID's program in Nicaragua is mostly implemented by U.S. and international voluntary organizations that have a proven track record with the mission and local implementing organizations and whose ongoing programs could be amended. For its only program with the Nicaraguan government—a \$3.6 million municipal infrastructure program implemented by the Emergency Social Investment Fund—USAID hired a U.S. management services firm to provide oversight and technical assistance. USAID also relied on the U.S. Army Corps of Engineers to review municipal infrastructure designs and make recommendations accordingly.
- In all its missions, USAID hired additional personal services contractors to oversee the programs and serve as technical officers. In Nicaragua, USAID hired a reconstruction coordinator; in Honduras, the program office and technical officers throughout the mission share responsibility for oversight.

Further oversight was provided by USAID's Office of the Inspector General, which was allocated an additional \$1.5 million to provide audit coverage of the disaster recovery program. Accordingly, the Regional Inspector General's Office in El Salvador has contracted with the Defense Contract Audit Agency and local affiliates of international accounting firms to conduct concurrent audits of vulnerable programs and regular audits of many other programs. Also, the USAID missions are requiring some funding recipients to contract for their own audits.

USAID Response to Project Concerns

Through the increased oversight of this program several concerns were identified as project implementation was under way. In many cases, USAID took action as problems arose, whether they were identified by USAID's own staff and contractors or Inspector General or GAO audits. I will discuss some of these issues for the two countries we are focused on—Honduras and Nicaragua.

Honduras

- During a trip to northern Honduras in October 2000, we traveled a road that had been repaired with USAID funds that had been poorly compacted. Recent rains had turned the road to mud and it was nearly impossible to navigate. This road is an important access route for transporting African palm oil to the coast for export and for local commerce. The U.S. engineer responsible for technical oversight agreed with our concerns and took prompt action to ensure the road was repaired properly. On a subsequent visit, we noted that the road was in excellent condition.
- Our visits to El Pataste in northern Honduras in July 2000 contributed to increased pressure by the USAID mission that partners specify how water, sanitation, roads, schools, and other key community services will be provided for housing projects. During this visit, we observed a housing project with well-constructed houses but no firm plans for potable water, despite a contractual obligation to ensure that key services are incorporated into housing communities. USAID eventually was successful in having the implementing organization negotiate a solution for the provision of potable water. USAID also developed a matrix for each housing project that specifies how water and other infrastructure are to be provided as well as proof that an environmental assessment had been completed, an additional USIAD requirement.
- USAID provided \$2.5 million to an agricultural lending cooperative for loans for small and medium-size farms despite a record of concerns about its management problems and financial viability. According to USAID, this organization was the only one available providing access to credit for these smaller producers. USAID hired a management services firm to handle loan disbursements and provide technical assistance for implementing management reforms, but the problems persisted. Based partly on GAO's scrutiny, USAID pressured the organization's Board of Directors to accept major restructuring of its organizational, management, and financial structure.

In January 2001, the Honduran Minister of Finance signed a memorandum of understanding with the lending organization outlining these changes and the likely consequences if the reforms are not made. USAID had suspended the remaining \$500,000 of the \$2.5 million loan fund pending the signing of the memorandum; these funds will be released this month.

- A USAID Inspector General's audit of questionable loans and GAO's questions forced increased accountability over a supplemental loan fund (about \$1.5 million) implemented by a local organization for micro-entrepreneurs affected by Hurricane Mitch. In addition, some loans that did not meet the criteria for the supplemental loan fund were removed and placed in a separate fund.

Nicaragua

- A GAO team visited numerous sites where an international private voluntary organization was implementing cash-for-work rural road rehabilitation projects. We pointed out several deficiencies in the quality of the work, including (1) roads not properly crowned to prevent standing water, (2) ditches not adequately dug to facilitate drainage of water, and (3) roadbed materials not suitable for withstanding traffic and weather. Based on our comments, as well as input from the U.S. Army Corps of Engineers and others, the private voluntary organization hired engineers to oversee road activities. We observed a noticeable improvement in this organization's road projects on subsequent visits. (See figure 11.)

Figure 11: Rural Road Near Jinotega, Nicaragua



Source: GAO

- In October 2000, GAO visited a rural health post where a private voluntary organization constructed a residence for medical personnel and rehabilitated a clinic. USAID and project staff were told that the work had been completed, the Ministry of Health had assigned medical personnel, and the post was in operation. However, when we arrived the facility was vacant and evidently had been so for months. We questioned whether USAID should be involved in such a project, given the Ministry's

lack of support. In January 2001, we returned to the clinic unannounced and found that a doctor was present and living at the residence and the clinic was operating. He had been assigned following our earlier visit. (See figure 12.)

Figure 12: Rural Health Facility Near Matagalpa, Nicaragua



Source: GAO

OTHER ISSUES

As I noted earlier in my statement, we also examined USAID's efforts to coordinate with other donors and U.S. agencies, help the affected countries' audit authorities, and mitigate for future disasters. Overall, USAID has done an adequate job of coordinating its assistance to minimize any duplication or overlap with other donors and U.S. agencies, but it has made limited progress in strengthening audit authorities or in mitigating against future disasters due, in large part, to a number of variables outside USAID's control.

USAID has coordinated with other bilateral and multilateral donors through formal consultative group meetings and informal contacts among mission staff and other donors. In contrast to many other donors, USAID is concentrating its activities in rural areas and smaller cities making it unlikely USAID will duplicate other donor efforts. Also, 13 other U.S. departments and agencies are implementing about \$96 million² in disaster recovery activities. After some initial delays, USAID worked with these agencies to help plan their efforts. We found no evidence that USAID activities duplicated those of other international donors or the other U.S. departments and agencies.

USAID is attempting to strengthen the capacity of host governments to resist corruption, but cannot point to much progress. For example,

²This amount does not include funds transferred by USAID through Participating Agency Service Agreements, which are included in USAID's overall totals.

- USAID provided \$1.5 million to the Controller General's Office in Honduras to continue an effort initiated before Hurricane Mitch to strengthen its capacity to audit USAID activities.
- In contrast, a USAID program with the Controller General's Office in Nicaragua (funded with regular funds) will not be extended because the Nicaraguan government created a panel of five appointees to oversee the Controller General, thereby diluting the office's independence. Similarly, according to USAID, it terminated its program with the Dominican Republic's Controller General because the Controller is not independent of executive branch interference.
- USAID also plans to contribute \$3 million and \$1 million for Honduras and Nicaragua, respectively, to the Inter-American Development Bank to institute donor assistance oversight units. However, these units have not been implemented due to disagreements over proposal terms.

USAID and the other U.S. government agencies are helping the hurricane-affected countries mitigate the effect of future natural disasters. Some of these activities support equipment and training for central civil defense institutions and community disaster preparedness programs. Other activities are aimed at improving watershed and agricultural management practices and encouraging families to relocate to less vulnerable areas. U.S. disaster mitigation efforts are constrained by the lack of suitable land for housing and infrastructure, decades of deforestation and other inappropriate environmental practices, and the lack of host government resources to sustain mitigation efforts.

OBSERVATIONS ON DISASTER RECOVERY EFFORTS

As I noted earlier, USAID faced—and continues to face—many challenges in implementing a large-scale recovery program, within a 30-month period, that is neither immediate relief nor long-term development. USAID essentially had to balance the competing demands for quick disbursement versus the need to build in extra accountability measures and the desire, in some cases, to attract U.S. business participation. In addition, the missions were essentially dealing with three disaster programs almost simultaneously—providing immediate emergency relief, implementing the initial recovery phase funded through reprogrammed and other USAID emergency funds, and planning and designing the large-scale supplemental disaster recovery assistance. These factors contributed to start-up time and should be considered when planning and implementing future disaster recovery and reconstruction programs.

The bottom line is that USAID did not have the mechanisms to quickly design and implement a large-scale infrastructure program with relatively short-range deadlines. For example,

- The disaster recovery program includes sectors in which the USAID missions in Honduras and Nicaragua had little or no expertise, such as construction,

infrastructure repair, watershed management, and disaster mitigation efforts. The USAID missions obtained this expertise through contractors and other U.S. agencies.

- In fiscal year 1998, the Honduras and Nicaragua missions were managing annual programs of about \$23 million and \$30 million, respectively. The Honduras mission, in particular, had been considerably reduced in size and it took many months—in a few cases more than a year—to fill the positions needed to oversee the disaster recovery program. In particular, the Honduras mission did not have a permanent contract officer—it had been sharing one with the Nicaragua mission—until October 1999, 1 year after Hurricane Mitch. Other missions also shared contract officers. In some cases, the reconstruction program included sectors in which the missions were not active. For example, the Honduras mission had essentially phased out its agricultural program before Hurricane Mitch. USAID direct-hires in general, and contract officers in particular, have declined in recent years and were not readily available to manage large-scale emergency programs. This problem was compounded by some USAID direct hire rotations during the summer of 1999 following passage of the disaster recovery funding. Although USAID's headquarters office attempted to ease the burden by providing temporary staff in the hurricane-affected countries, the missions lacked needed continuity.
- Acquiring personal services and institutional contractors with the requisite language and technical skills often took 6 months to a year. The time involved included gaining the respective embassy's approval, advertising the positions, and obtaining security clearances for new contractors.
- Although USAID missions had the authority to waive full and open competition for awarding contracts and grants, it was used sparingly. Using sole source awards would have speeded up the award process, but it likely would have precluded U.S. firms from being awarded contracts. The Honduran mission, for example, redesigned much of its municipal water and sanitation program to allow U.S. firms to compete, resulting in a later start date. The mission used the waiver authority to bypass advertising normally required in the Commerce Business Daily, which saved 60 days in awarding several contracts.
- The accountability measures discussed above also had to be established prior to program implementation. For example, for its host country contracting programs, the USAID mission in Honduras had to advertise for and select the U.S. engineering and project management staff that oversaw the technical aspects and the third-party accounting firm that handled disbursements.
- Thirteen additional U.S. departments and agencies received disaster recovery funds, and eight of these were linked with USAID's program. Many of these agencies had little or no prior experience in working overseas. At the outset, USAID staff spent considerable time incorporating these agencies into USAID's development approach. In addition, the agencies' administrative requirements, such as office space, residences, vehicles, equipment, and supplies had to be coordinated with the respective U.S. embassy's overall administrative services account. Officials from the

other U.S. agencies expressed concerns about the time it took to incorporate a relevant program into USAID's framework and the administrative constraints of operating in an overseas environment. Nevertheless, USAID officials generally agreed that many agencies added value to the program once the initial start-up problems were resolved. In particular, USAID officials most often cited the four agencies with scientific, technical, and engineering expertise not available at USAID—the U.S. Geological Survey, the U.S. Army Corps of Engineers, the U.S. Department of Agriculture, and the National Oceanic and Atmospheric Administration.

USAID officials in the overseas missions and in USAID's Washington, D.C., headquarters generally agreed with our overall observations. They emphasized that the lead role which USAID was expected to perform in planning and implementing the disaster recovery program was a significant challenge.

According to these USAID officials, USAID's Latin America and the Caribbean Bureau produced a "lessons learned" analysis several months after the disaster recovery program's start-up. It looked at the principal steps in the disaster recovery program process and offered observations on systemic and procedural changes needed for a similar response in the future. This has led to an ongoing, USAID-wide review of its experiences with international emergencies. A series of recommendations is under consideration, including options for funding, staff mobilization, contracting and the use of special authorities, and relationships with other U.S. government agencies and the private sector.

Therefore, we are not making any recommendations at this time. We will continue to stay abreast of USAID's efforts to improve its planning for and delivery of disaster recovery assistance.

- - - - -

Mr. Chairman, this concludes my statement. I will be happy to address any questions the Subcommittee may have.

(711561)